“Financial Reporting” Training Module

SLIDE 1: Introduction

Welcome to the “Financial Reporting” module of the “How to Work with USAID” training series.

This module will be of particular value to organizations with limited or no experience working with USAID. But, *any* organization that needs to develop effective financial reporting processes will find this information useful.

SLIDE 2: Learning Objectives

All USAID award agreements contain financial requirements your organization needs to meet. This module introduces you to the format and timing of financial reports your organization must submit to show you are meeting the requirements.

During this presentation, we will review the process of filling out federal financial reports.

We will learn how to request an advance or reimbursement from USAID.

We will identify key elements to include in the annual Foreign Tax Report.

And, finally, we will determine best practices to follow as you prepare proper financial reports.

SLIDE 3: Why USAID Partners with Organizations

USAID partners with thousands of organizations around the world to fulfill its mission, which is to lead the U.S. Government’s international development and disaster assistance efforts on behalf of the American people.

These partnerships help:

- Save lives;
- Reduce poverty;
- Strengthen democratic governance; and
- Help people emerge from humanitarian crises and progress beyond assistance.

SLIDE 4: Types of Funding Opportunities

USAID offers two main types of funding opportunities—assistance and acquisition. Each addresses different needs.

Assistance is when USAID awards funds through a grant or cooperative agreement. These funds are provided to a recipient organization for a public purpose. With assistance, the Agency functions as a financial supporter with limited involvement, and the Agreement Officer's Representative, or AOR, is the partner's main point of contact with USAID.

Acquisition is when USAID awards funds through a contract. This is when USAID purchases goods and services from a contractor for USAID's own use or to implement an Agency activity. Under acquisition, USAID is an involved buyer and provides primary direction to the contractor under strict terms. The Contracting Officer's Representative, or COR, is the partner's main point of contact with USAID.

SLIDE 5: Regulations and Policies

As you know, it is important to follow U.S. Government and USAID regulations when you work on reports and budgets.

The applicable U.S. Government regulations are:

- The **Code of Federal Regulations**, or CFR, Chapter 2, Parts 200 and 700, govern how USAID executes all assistance awards;
- The **Federal Acquisition Regulations**, or FAR, include primary rules that guide how U.S. Government agencies acquire supplies and services; and
- The **U.S. Department of State Standardized Regulations**, or DSSR, and the General Services Administration's **Fly America Act/Open Skies Agreement**, detail rules on allowances and travel.

Two other sets of USAID-specific internal policies are relevant:

- The **Automated Directives System**, or ADS, Chapter 300, outlines operational policies covering all Agency and partner activities; and
- The **USAID Acquisition Regulations**, or AIDAR, govern how USAID administers public funds.

We will reference these rules when they apply throughout this presentation. We will also provide links to the regulations in the "Resources" section at the end of the module.

DIVIDER SLIDE: The Standard Federal Financial Report (SF-425)

As a part of reporting requirements, awardees are required to submit financial reports. The Standard Federal Financial Report, or SF-425, is for partners implementing assistance awards. Those partners implementing acquisition awards, or contracts, will use the SF-270, Request for Advance or Reimbursement, to report financial status and may skip ahead to Slide 14.

SLIDE 7: Purpose of the SF-425

The SF-425 is a cumulative report that captures the financial status of an assistance award at a specific point in time. The report is usually submitted on a quarterly basis, unless the award specifies a different reporting schedule.

The SF-425, coupled with your budget, helps your organization and USAID determine whether your expenditures are aligned with the implementation of your Activity.

USAID staff can use your report and budget to reconcile their records, ensuring accuracy in financial reporting and oversight.

The report offers details both you and USAID can use to assess how quickly funds are being used, known as the expenditure rate, and how much money remains for future use, known as "pipeline funds."

The SF-425 also provides an opportunity for your organization to demonstrate that it understands and can meet its financial management responsibilities to USAID.

Feel free to ask questions about financial reporting during your post-award orientation meeting and throughout the management of your award. Your Agreement Officer's Representative or AOR can provide guidance as needed, so you can avoid common errors.

SLIDE 8: Format of the SF-425

First, be sure to read financial reporting requirements in your award agreement, including when and how often to submit reports, what forms to use, and how and to whom you must submit reports.

A completed SF-425 shows:

- How much money has been drawn from the award;
- The source of money being used (this source might be USAID, cost share, or program-generated income); and
- The balance of unused money at the end of the reporting period.

Your organization should be ready to provide USAID with supporting documentation that confirms how you have or will allocate funds to budget line items. Note that a separate SF-425 must be used for each

USAID award. If an organization has two USAID awards, it will submit two SF-425s through a Federal Financial Report attachment, or FFR.

You will find a link to a downloadable copy of the SF-425 at the bottom of this slide and in the "Resources" section at the end of this module. Consider pausing this presentation and printing out the form, so you can refer to it as we go through the steps of completing an SF-425 in the next few slides.

SLIDE 9: Top Portion of the SF-425 *(GRAPHIC)*

The top portion of the SF-425 requires you to enter basic information about your organization and award. Much of this information will remain the same for each quarterly SF-425 you submit.

Note that Box 4a asks for the organization's Unique Entity Identifier, or UEI. Currently, the Data Universal Numbering System, or DUNS, number is the official UEI for the U.S. Government. To learn how to obtain a DUNS number, see the "Registering to Work with USAID" training module, listed in the "Resources" section at the end of this module.

Box 4b is where U.S.-based organizations will provide their Employer Identification Number (EIN). Non-U.S.-based partners may leave this blank.

Box 5 is for the "Recipient Account Number or Identifying Number." You may leave this blank, because it is not required by USAID. It simply provides space to accommodate organization-specific tracking. Please do not enter bank account information here.

In Box 7, you will specify whether your organization used a cash or accrual basis to record transactions related to the award. For cash basis accounting, you record expenses when you pay them. In accrual accounting, you record expenses when they are incurred.

SLIDE 10: Section 10 of the SF-425

Let's continue on to Section 10 of the SF-425, which details your award's transactions. You can find detailed guidance on filling out this section in a downloadable "Instructions" document at Grants.gov. We linked to the instructions on this slide and in the "Resources" section at the end of this module.

The first part of Section 10, lines "a" through "c," is used to track the federal cash you received from the award.

The second part, lines "d" through "h," is where you input your expenditures of federal award funds and any unobligated balance.

The last part of Section 10, lines "i" through "o," deal with expenditures made against cost sharing and program income, which may or may not be included in your award agreement. Fill in cost sharing amounts here. If your award agreement allows program income, please see instructions in ADS Chapter 303.3.10.4, titled "Program Income."

If neither cost sharing nor program income are required or allowed, fill in these lines with "N-slash-A" for "not applicable."

SLIDE 11: Bottom Portion of the SF-425 *(GRAPHIC)*

Section 11 is completed only if your award agreement requires you to charge an indirect cost rate. If your award does not require this, mark these lines "N-slash-A."

Some contractors have multiple rates, but each award will require only one rate. You should use the rate applicable to the specific award for which you are reporting. Enter total amounts charged from the date of award inception through the end date of the reporting period specified in Section 9.

Section 12 provides an opportunity to include explanations important to the overall report. For example, you might need to explain an excess of cash on hand, pipeline anomalies, changes in the indirect cost rate, or clarification of prior report adjustments or corrections.

Section 13 is where you will certify that the information you provided is true, complete, and accurate.

Before sending the form to the person indicated in your award agreement, double-check to make sure all calculations are correct. Be sure to copy your AOR when sending the form.

SLIDE 12: Timing of the SF-425 *(GRAPHIC)*

Federal Financial Reports must be submitted with the frequency specified by the award agreement. Typically, USAID requires quarterly submission of the SF-425.

The report is due to USAID no more than 30 days after the end of each of the Agency's financial quarters or as outlined in your award agreement. USAID's fiscal year begins October 1 and ends on September 30. Typically, deadlines for submission are the 30th of each of the months of January, April, July, and October, as shown in this chart.

Remember, too, that you will need to submit a final report—which will cover the full lifetime of the award—within 90 days of the end of the award or as outlined in your award agreement.

Sending a correct SF-425 on time indicates to USAID that your organization maintains a good financial management system. A delay in submitting the report may cause funding to be postponed, which could interrupt program activities. A delay also indicates that your organization's systems may require increased oversight by USAID staff and auditors.

Note that you are required to notify USAID when your organization has spent 75 percent of the award's obligated funds. This is to let USAID know you are nearing the end of your project's obligated funding. It is important not to confuse the obligated amount with the award's ceiling, or total, amount of money you could receive under the award.

SLIDE 13: The SF-425: Summary

To summarize, the SF-425 is a cumulative report that captures the financial status of an award agreement at a specific point in time.

Your organization should be ready to provide USAID with supporting documentation confirming the total funds you have allocated to budget line items since the beginning of your award. This documentation might include receipts and invoices from vendors, employee timesheets, and quotes or estimates you collected when you selected vendors.

Typically, the report is due to USAID no more than 30 days after the end of each of the Agency's financial quarters or as outlined in your award agreement. The final report is usually due 90 days after the end of the award.

You are required to notify USAID when you have spent 75 percent of your obligated funding.

Finally, if you have any questions about financial reporting, check with your AOR for guidance.

DIVIDER SLIDE: Request for Advance or Reimbursement (SF-270)

Now let us review how your organization will make requests for advances or reimbursements using the SF-270.

SLIDE 15: Purpose of the SF-270

The U.S. Government uses the SF-270 form to disburse funds. This form is also called the "Request for Advance or Reimbursement." Funds may be disbursed in two ways, either by giving funds in advance or by reimbursing partners for expenses.

Your award agreement specifies the format you must use to request advances or reimbursements. Your AOR or COR may provide additional guidance.

USAID staff will reconcile any advance and reimbursement requests with their records to ensure accuracy in financial reporting and oversight. You can expect the Agency to monitor your organization's ability to manage its cash, so it is essential to maintain a robust internal accounting control system.

SLIDE 16: How to Make a Request

To request advances or reimbursements, you will fill out form SF-270 and submit it to the U.S. Government. A request for reimbursement should reflect the exact amount spent or expected to be spent during a specific period you describe. To support the amount you request, you need to supply documentation, such as copies of receipts and invoices, with the form.

A request for an advance is an estimate of "immediate disbursement needs," or what you expect to spend in the coming month(s). This amount should include all funding anticipated for sub-partners and subcontractors during that period. Advance requests should reflect actual cash-flow needs for the period and not simply the annual budget divided by 12.

Organizations working with sub-partners and subcontractors should coordinate efforts so funding requests and spending are managed efficiently and without surprises. You may ask them to provide monthly funding estimates.

You can find a broader explanation of rules governing advances in the ADS Chapter 636, which is linked here and in the "Resources" section at the end of this module.

SLIDE 17: Top Portion of the SF-270 *(GRAPHIC)*

This is what the top portion of the SF-270 looks like. As you can see, the information USAID is seeking is straightforward. Please note that Box 6 is where U.S.-based organizations will provide their Employer Identification Number (EIN). Non-U.S.-based partners may leave this blank.

Enter a Financial Assistance Identification Number in Box 7 if you have one. Otherwise, leave it blank.

The link to the form, with instructions, can be found on this slide and in the "Resources" section at the end of this module.

SLIDE 18: Computation of Amount Requested *(GRAPHIC)*

You may need to complete Section 11 or 12, depending on how much information your award agreement requires.

Section 11 provides space for separate cost breakdowns by program, function, or activity. If additional columns are needed, use as many additional forms as necessary, number them, and indicate page numbers in the space provided in the upper right. Section 11-f applies only if the partner is providing cost-share funds. Section 11-g equals the total amount to date that will be paid by federal grant dollars.

The summary totals of all programs, functions, or activities should be shown in the "Total" column on the first page.

Typically, Section 12 is used when only a minimum amount of information is needed by the Agency to approve and advance funds and when the information requested in Section 11 may be obtained in a timely manner from other reports.

SLIDE 19: Cash-Flow Budget

When you request an advance with form SF-270, you will also submit a supporting cash-flow budget that analyzes the award funds you need and the timeline over which you expect to spend the funds.

In the cash-flow budget, you also will include a review of pipeline funds yet to be spent. You will calculate the expenditure rate—in other words, an estimate of how fast you are spending and expect to spend total award funds over the project timeline.

Your organization and USAID will use this information to estimate how long your remaining funds will last.

In the next two slides, we will explain how to complete a pipeline analysis and calculate an expenditure rate to submit with your advance requests.

SLIDE 20: Sample Pipeline Analysis *(GRAPHIC)*

Here is a simplified example of a pipeline analysis, which is typically used as a reference for incremental funding for the award.

Column A shows the total estimated cost, or TEC, to implement the project.

Column B shows the amount of money obligated, or disbursed, to the project to date, and Column C shows costs incurred to date.

Column D shows outstanding commitments assumed by the project that have not been paid for yet.

Column E is the sum of all costs incurred plus outstanding project commitments, or total expenditures.

Subtracting the total expenditures from the obligated amount gives you the unexpended balance, which you place in Column F.

In Column G of this example, you can see this organization is requesting an additional $3,000 for the next month's expenses.

Column H shows that, after receiving this $3,000, the organization still may request an additional $6,700 before exceeding the project's TEC.

Note that when requesting incremental or unfunded extensions, you must provide rationale for the amount requested. Column H is particularly important, because your funding request cannot be greater than the amount left to meet the TEC. If you request more than the dollars remaining, the award agreement may require a TEC increase, which would require approval by your Contracting or Agreement Officer.

SLIDE 21: Sample Expenditure Rate Calculation *(GRAPHIC)*

The complement to the pipeline analysis is the project expenditure rate. Here we have provided a simplified example of an expenditure rate calculation. Note this is only an example and that your project may have periods of higher expenditures, especially during major events or procurements.

In this example, the term of the contract is 60 months. Thirty-five months of the contract have passed, leaving 25 months remaining.

Up until this point, the average expenditure rate, or amount spent per month, was $42,857. This was calculated by dividing the total expenditures to date by the number of months to date.

Because the total estimated cost of the project is $2.5 million, there is still $1 million for future expenditures. By dividing this amount by the average expenditure rate, we can estimate that this money will last about 23.33 months.

As a general rule, this number should not exceed 12 to 18 months of funding.

If the number of months the money will last is **more** than the number of months left in the award's timeline, as in this example, with 23.33 months remaining, it indicates a "forward funding" issue—the project may not have requested funds fast enough to meet its needs going forward.

On the other hand, if the estimated number of months the current money will last is **less** than the number of months left in the award timeline, it could indicate a different issue—where funds will fall short in the coming months. In this case, you will want to check with your AOR or COR. Depending on the performance period and other factors, the Agency may need to obligate more funds to the award.

You can find a broader explanation of rules governing forward funding in USAID's ADS Chapter 602. There is a link here on the slide and in the "Resources" section at the end of this presentation.

SLIDE 22: Certification

A reimbursement request must be accompanied by a statement from an authorized representative certifying that the information you are providing in the report and attachments is correct and that the sums claimed are proper. Note that a certification statement is not needed for requests for advances.

Your certification statement may be included at the end of the form or spreadsheet or you may prepare and submit it separately.

You can find certification details—as well as sample language to use—in the AIDAR Part 752.7003, "Documentation for Payment." We include a link on this slide and in the "Resources" section at the end of this module.

SLIDE 23: Additional Information

Some USAID Missions require additional information when an organization submits an SF-270.

For example, USAID Southern Africa often requests a supplemental form that includes:

- Total expenses submitted to USAID prior to the request;
- Remaining advances at the date of the request;
- Immediate cash needs for the period; and
- The period the request covers.

Discuss the need for any supplemental information with your AOR or CORwhen you submit an SF-270.

SLIDE 24: Sample Advance and Liquidation Timeline

Remember advances and reimbursements must be filed either monthly or quarterly, depending on your organization's cash needs. However, liquidations—the transactions that clear out remaining balances—are filed only quarterly.

Let us look at the details of an advance or liquidation timeline for a project beginning in January. To receive an advance payment for January 1, your organization must submit an advance request by December 7. The same goes for each subsequent month: To receive payment on time, your request must be submitted by the 7th of the month before. This is just an example; your timeline may look very different.

If you overestimate the amount of funds you need for an advance, you must return those funds with the next liquidation. These returned funds will remain available for future advances from the Agency.

Also note that supplemental vouchers may be submitted at any point. And because of the different deadlines, you will receive April and May advances before January and March excess funds are returned to you.

SLIDE 25: Request Reimbursements with the SF-1034

Organizations with cost-reimbursement contracts will submit reimbursement requests using the SF-1034 form, called the "Public Voucher for Purchases and Services Other Than Personal."

When partners request a reimbursement, the amount requested should reflect the exact amount spent during the period. Remember you need to supply documentation—such as copies of receipts, timesheets, or invoices—to support the amount you request.

As with acquisition awards, organizations working with sub-partners and subcontractors under contracts should coordinate their efforts so funding requests and spending are managed efficiently and without surprises. You may ask your sub-partners and subcontractors to provide monthly funding estimates.

SLIDE 26: Completing the SF-1034 Form *(GRAPHIC)*

This is what an SF-1034 form looks like. You can find a link to the form, with instructions, on this slide and in the "Resources" section at the end of this module. Note that you do not need to fill out the far right column.

As you can see, the information USAID requests here is rather basic. You will submit the request with a supporting cash-flow budget and a certification to supplement the information you provide in the SF-1034 form.

SLIDE 27: Requests for Advance and Reimbursement

To summarize, if you are a contractor requesting a reimbursement, the amount requested should reflect the exact amount spent during the period. You will also submit a certification statement and documentation to support your request.

If you are instead requesting an advance, the amount you list will be an estimate of what you expect to spend in the coming month. With this request, you will also submit supporting documentation: a cash-flow budget—including a review of pipeline funds and an expenditure rate calculation.

DIVIDER SLIDE: The Foreign Tax Report

Let us now discuss the annual Foreign Tax Report—another report that some USAID contractors must submit.

SLIDE 29: Purpose of the Foreign Tax Report

A Foreign Tax Report helps assess whether your organization is using U.S. government funds for the purpose intended and whether foreign governments are complying with bilateral agreements with the United States, which generally include provisions regarding not taxing U.S. foreign assistance.

This annual reporting requirement is only for commodity transactions (not services) and covers any value-added tax, or VAT, levied on **commodities purchased in-country** and customs duties levied on **commodities imported into the country** for use in USAID-funded projects. USAID requires foreign tax reports even if your organization did not pay any taxes on commodities during the reporting period.

VAT or sales tax levied on items purchased **outside** of the host country where you are implementing your USAID-funded program are **not** exempt. For example, if an organization purchases commodities in

South Africa for use in its USAID-funded project being implemented in Mozambique, it would **not** be exempt from paying VAT in South Africa.

SLIDE 30: Report Format and Timing

There is not a prescribed format for the Foreign Tax Report, but your award agreement or contract will include detailed requirements. Check with your AOR or COR to ensure you report foreign taxes in a way that complies with the requirements established by the U.S. embassy in the country where you are working.

Regardless of the format, Foreign Tax Reports generally include:

- The organization's name and a contact person with a phone number and email address;
- The USAID award number;
- An itemized list of commodity transactions greater than the equivalent of $500 for which tax was paid; and
- Total reimbursements received during the fiscal year.

Note that if you have sub-partners with in-country purchases equivalent to at least $500, you must also incorporate this data into your report.

The foreign tax reporting period is October 1 through September 30, which is the U.S. Government's fiscal year. Your report is due by April 16th of the following year.

SLIDE 31: Sample Foreign Tax Tracking Log (GRAPHIC)

Here, we have an example of a foreign tax tracking log. You can create a log like this for each country where you operate. It can include all requests, even from different projects, related to that country.

SLIDE 32: Foreign Tax Report Best Practices

Here are some best practices for gathering data for your foreign tax reports.

First, develop a list of exemptions and required taxes so everyone in your organization involved with procurements is aware of the rules. Share this with sub-partners as well. This is particularly important if your organization works in multiple countries or is implementing a regional program.

Create a special code in your accounting system for tracking all payments of exempt taxes. Use this code only for exempt taxes, not for legitimate taxes paid. Also create a special code in your system for tracking incoming tax reimbursement payments from the host government. Make sure you can tie reimbursements received back to the original accounting entry that recorded the taxes being paid. This will make it easy to identify which reimbursements have and have not been received.

Establish a log that tracks the tax payment and reimbursement process. This should document each tax payment, reimbursement request, and payment received. You may also want to make sure you have a policy for keeping copies of receipts and reimbursement requests sent to the host government or USAID office.

Finally, ask any sub-partners and subcontractors that have relevant purchases of commodities to submit their reports to you well before the April 16 deadline.

You will find a link to additional tips on this slide and in the "Resources" section at the end of this module.

DIVIDER SLIDE: Summary

We covered a lot of information in this module. Let us review what you have learned.

SLIDE 34: Key Points

First, be sure to read the relevant parts of your award agreement or contract that describe financial reporting requirements, including when and how often to submit reports, what forms to use, and how and to whom to submit reports.

Meet USAID deadlines for SF-425s and SF-270s, so the Agency can process payments in a timely manner, and remember to notify USAID when you have spent 75 percent of your obligated funds.

Before you submit any reports or requests, double-check to ensure that all required information is included and accurate and all calculations are correct. If USAID has to return an incomplete form, your organization may face a delay in receiving funds. Also make sure to include costs actually incurred and paid, and do not overestimate advances.

If you work with sub-partners and subcontractors, engage them early in the reporting process, since many reports require information from them. When creating your reporting calendar, allow enough time for your sub-partners and subcontractors to give you meaningful input.

Finally, alert your AOR or COR early if reporting or budget challenges come up. Do not wait to file a report.

SLIDE 35: Resources

Here, we provide some resources to help you understand USAID's financial reporting processes and requirements in more detail.

SLIDE 36: Thank You

Thank you for taking time to learn about USAID financial reporting.

Remember: Accurate and timely financial reporting is an obligation of all organizations that receive funding from USAID. Following the tips in this module will help your organization understand and adhere to these important requirements. Download the quick reference guide for this module to remind you of important guidelines and helpful hints.

SLIDE 37: Acknowledgement

This module was produced by the United States Agency for International Development. The presentation team includes staff from USAID and the Partnerships Incubator. USAID thanks all the individuals who contributed their time and ideas toward the development of this training module.

Please email any questions or feedback you may have to IndustryLiaison@USAID.gov.

To learn more about partnering with USAID, please visit www.WorkwithUSAID.org. Again, that is www.WorkwithUSAID.org.